

Quanex Building Products CORP
Form 10-Q
September 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE 26-1561397
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1800 West Loop South, Suite 1500, Houston, Texas 77027

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (713) 961-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 3, 2015
Common Stock, par value \$0.01 per share	33,916,727

QUANEX BUILDING PRODUCTS CORPORATION

INDEX

PART I.	<u>FINANCIAL INFORMATION</u>	<u>1</u>
Item 1:	Financial Statements (Unaudited)	<u>1</u>
	<u>Condensed Consolidated Balance Sheets</u> – July 31, 2015 and October 31, 2014	<u>1</u>
	<u>Condensed Consolidated Statements of Income (Loss)</u> – Three and Nine Months Ended July 31, 2015 and 2014	<u>2</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u> – Three and Nine Months Ended July 31, 2015 and 2014	<u>3</u>
	<u>Condensed Consolidated Statements of Cash Flow</u> – Nine Months Ended July 31, 2015 and 2014	<u>4</u>
	<u>Condensed Consolidated Statement of Stockholders’ Equity</u> – Nine Months Ended July 31, 2015	<u>5</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2:	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
Item 3:	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
Item 4:	<u>Controls and Procedures</u>	<u>35</u>
PART II.	<u>OTHER INFORMATION</u>	<u>36</u>
Item 6:	<u>Exhibits</u>	<u>36</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2015	October 31, 2014
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$27,011	\$120,384
Accounts receivable, net of allowance for doubtful accounts of \$789 and \$698	62,523	55,193
Inventories, net (Note 3)	72,948	57,358
Deferred income taxes (Note 8)	18,508	21,442
Prepaid and other current assets	8,576	6,052
Total current assets	189,566	260,429
Property, plant and equipment, net of accumulated depreciation of \$214,585 and \$200,414	140,549	109,487
Deferred income taxes (Note 8)	—	1,545
Goodwill (Note 4)	130,861	70,546
Intangible assets, net (Note 4)	124,502	70,150
Other assets	7,302	4,956
Total assets	\$592,780	\$517,113
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$45,712	\$41,488
Accrued liabilities	32,250	32,482
Income taxes payable (Note 8)	150	107
Current maturities of long-term debt (Note 5)	9,468	199
Total current liabilities	87,580	74,276
Long-term debt (Note 5)	82,575	586
Deferred income taxes (Note 8)	6,605	—
Deferred pension and postretirement benefits (Note 6)	6,621	4,818
Liability for uncertain tax positions (Note 8)	548	4,626
Other liabilities	21,811	11,887
Total liabilities	205,740	96,193
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none	—	—
Common stock, \$0.01 par value, shares authorized 125,000,000; issued 37,609,563 and 37,632,032, respectively; outstanding 33,916,727 and 36,214,332, respectively	376	376
Additional paid-in-capital	250,229	249,600
Retained earnings	213,571	202,319
Accumulated other comprehensive loss	(8,175	) (5,708
Less: Treasury stock at cost, 3,692,836 and 1,417,700 shares, respectively	) (68,961	) (25,667
Total stockholders' equity	387,040	420,920
Total liabilities and stockholders' equity	\$592,780	\$517,113

The accompanying notes are an integral part of the financial statements.

Table of Contents

QUANEX BUILDING PRODUCTS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
 (Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net sales	\$180,206	\$169,981	\$450,069	\$431,568
Cost and expenses:				
Cost of sales (excluding depreciation and amortization)	136,853	130,706	353,469	335,544
Selling, general and administrative	25,023	18,097	64,157	60,992
Depreciation and amortization	8,502	8,512	24,541	25,550
Asset impairment charges	—	—	—	505
Operating income	9,828	12,666	7,902	8,977
Non-operating income (expense):				
Interest expense	(338	) (135	) (624	) (419
Other, net	566	(8	) 300	66
Income from continuing operations before income taxes	10,056	12,523	7,578	8,624
Income tax expense	(3,585	) (3,956	) (1,907	) (3,298
Income from continuing operations	6,471	8,567	5,671	5,326
Income (loss) from discontinued operations, net of tax of \$284, (\$3), \$299 and \$11,899, respectively	456	(520	) 479	18,952
Net income	\$6,927	\$8,047	\$6,150	\$24,278
Basic income (loss) per common share:				
From continuing operations	\$0.20	\$0.23	\$0.17	\$0.14
From discontinued operations	0.01	(0.01	) 0.01	0.51
Income per share, basic	\$0.21	\$0.22	\$0.18	\$0.65
Diluted income (loss) per common share:				
From continuing operations	\$0.19	\$0.23	\$0.17	\$0.14
From discontinued operations	0.01	(0.02	) 0.01	0.50
Income per share, diluted	\$0.20	\$0.21	\$0.18	\$0.64
Weighted-average common shares outstanding:				
Basic	33,618	37,296	34,111	37,171
Diluted	34,142	37,823	34,626	37,756
Cash dividends per share	\$0.04	\$0.04	\$0.12	\$0.12

The accompanying notes are an integral part of the financial statements.

Table of Contents

QUANEX BUILDING PRODUCTS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
	(In thousands)			
Net income	\$6,927	\$8,047	\$6,150	\$24,278
Other comprehensive income (loss):				
Foreign currency translation adjustments gain (loss) (pretax)	35	(974)	(2,537)	308
Foreign currency translation adjustments tax benefit	—	—	—	14
Change in pension from net unamortized gain adjustment (pretax)	—	—	—	122
Change in pension from net unamortized gain tax benefit	—	—	70	—
Other comprehensive income (loss), net of tax	35	(974)	(2,467)	444
Comprehensive income	\$6,962	\$7,073	\$3,683	\$24,722

The accompanying notes are an integral part of the financial statements.

Table of Contents

QUANEX BUILDING PRODUCTS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
 (Unaudited)

	Nine Months Ended July 31,	
	2015	2014
	(In thousands)	
Operating activities:		
Net income	\$6,150	\$24,278
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	24,541	28,590
Stock-based compensation	3,391	2,835
Deferred income tax provision	1,576	11,036
Excess tax benefit from share-based compensation	(60)	(643)
Asset impairment charges	—	1,007
Gain on sale of discontinued operations	—	(39,122)
Gain on involuntary conversion	(1,263)	—
Other, net	655	1,723
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in accounts receivable	4,328	162
Increase in inventory	(51)	(23,232)
Increase in other current assets	(1,568)	(999)
(Decrease) increase in accounts payable	(5,236)	17,435
Decrease in accrued liabilities	(5,606)	(12,111)
(Decrease) increase in income taxes payable	(817)	1,998
Increase in deferred pension and postretirement benefits	1,873	1,008
Decrease in other long-term liabilities	(162)	(1,719)
Other, net	(202)	(2,492)
Cash provided by operating activities	27,549	9,754
Investing activities:		
Net proceeds from sale of discontinued operations	—	107,431
Acquisitions, net of cash acquired	(131,689)	(5,161)
Capital expenditures	(21,918)	(29,026)
Proceeds from property insurance claim	1,263	1,400
Proceeds from disposition of capital assets	207	807
Cash (used for) provided by investing activities	(152,137)	75,451
Financing activities:		
Borrowings under credit facility	92,000	—
Repayments of credit facility borrowings	(8,000)	—
Repayments of other long-term debt		